

GILLESPIE FIELD DEVELOPMENT COUNCIL  
November 21, 2006

AGENDA ITEM # 6

LA JOLLA INVESTMENT COMPANY, INC  
Proposed Second Amendment to Lease and Two New Leases

This is a proposal regarding a proposed amendment and new leases for the existing 11.18-acres leased to La Jolla Investment Company Inc., developer of the Speer Field property on Gillespie Field. The proposed amendment to the existing lease reduces the size of the existing leasehold allowing for two new leases, one on the west end and one on the east end, of the current premises. The total size of the three leaseholds will remain at 11.18 acres.

This proposal was last brought in front of the GFDC and approved in May of 2005. However, soil testing resulted in further negotiation and the amendments and leases have not yet been reviewed by the Board of Supervisors. Test results have now been validated and parties have agreed to language regarding possible contamination. As a result of the delays and negotiations the proposed term for the new leases has changed, also requiring recalculation of the capital improvement requirements and equity. Therefore, it is necessary to bring this item back to the GFDC for an additional approval. The Leases are targeted to go before the Board in January of 2007.

All three leases, as in Airports standard leases, have the ability to be assigned to a qualified buyer subject to the County's consent. It is the County's understanding that La Jolla Investments plans to assign the interest in the western leasehold to Ed Kurdziel as soon as the new lease has been approved.

PROPOSAL

Proposed Second Amendment to Aviation Lease for La Jolla Investments Inc. (Contract No 75099R).

Parcel - The size of the premises would be reduced to 7.1 acres.

Rent - The current lease is under the scheduled rent increases for Gillespie Field aviation leases and will continue at the current per acre per month rental rate with the same scheduled cost of living increases. The rent would be reduced proportionally to the amount the premises are reduced. The current rent is \$486.44 per acre per month or \$3,453.72 per month. Cost of living increases will continue according to the scheduled formula until 2010. Beginning in 2010 rent will be determined by the standard negotiated rent clause.

Term - The termination date for this lease will remain October 31, 2030. There will

not be any additional term so there are not additional capital improvement requirements and no equity payment to the County for the existing improvements.

Other terms in the existing Lease will remain the same.

First Proposed New Lease for La Jolla Investments Inc. (Western Parcel)

Term - The lease will have a term of 34 years, commencing on February 1, 2006 and terminating January 31, 2041.

Rent – The rent is currently \$486.44 per acre per month so the beginning monthly rent for the 1.38 acre parcel will be \$671.29. Cost of living increases will continue according to the scheduled formula until 2010. Beginning in 2010 rent will be determined by the standard negotiated rent clause.

Required Leasehold Improvements - Based on County Airports standards the lessee is required to invest \$70,725 (\$5,000 x 1.38 acres x 10.25 years) in minimum capital improvements. The tenant has proposed the development of two hangar buildings. The concept site plan was reviewed and approved by GFDC on January 17, 2006.

Equity – There will be no equity payment to the County because there are currently no improvements on this parcel.

New Lease Form - The new lease will be on the County's standard aviation lease form, which includes all the current updated language approved by County Counsel. These new standards include revisions recommended by the FAA.

Second Proposed New Lease for La Jolla Investments Inc. (Eastern Parcel)

Term - The lease will have a term of 34 years, commencing on February 1, 2006 and terminating January 31, 2041.

Rent – The rent is currently \$486.44 per acre per month so the beginning monthly rent for the 2.7 acre parcel will be \$1,313.38. Cost of living increases will continue according to the scheduled formula until 2010. Beginning in 2010 rent will be determined by the standard negotiated rent clause.

Required Leasehold Improvements - Based on County Airports standards the lessee is required to invest \$ 138,375 (\$5,000 x 2.7 acres x 10.25 years) in minimum capital improvements. The tenant has proposed the development of additional hangars.

There will be no additional crew quarters. A complete development plan will be brought back to Gillespie Field Development Council for review once plans have been finalized, reviewed and approved by County Staff and a Notice of Proposed Construction or Alteration has been approved by the FAA and prior to commencement of any construction.

Equity - There is only one building on this proposed new Leasehold. The County will receive an equity payment for postponing the reversionary interest for this building. This amount has been calculated using depreciated replacement value of the building and equity build up method. Because there is still 24 years remaining on the current lease this amount is only a small portion of the total value of the hangar. . There is also a credit calculated into this amount for development delays, and problems from the current leasehold. The equity payment to the County shall be \$37,996. The lessee has agreed that this credit will be the only consideration granted for any issues regarding the existing development.

New Lease Form - The new lease will be on the County's standard aviation lease form, which includes all the current updated language approved by County Counsel. These new standards include revisions recommended by the FAA.

## RECOMMENDATION

Staff recommends that the Council adopt the following motion with respect to the proposed transactions.

*MOTION – "It is recommended that the Board of Supervisors approve the proposed Second Amendment to Aviation Lease and two new leases with La Jolla Investments, Inc., as recommended by staff."*